STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

In the Matter of the Proposed Rules
Relating to Homeownership Assistance Fund
Tax Reform Transition Demonstration Program

Statement of Need
and Reasonableness

Minnesota Rule Part 4900.1360.

Minnesota Statutes Section 462A.21, Subdivision 8, authorizes the Minnesota Housing Finance Agency (MHFA) to establish a homeownership assistance fund (HAF) on terms and conditions it deems advisable, to assist persons of low and moderate income in paying installments of eligible loans for affordable housing and in providing the required equity investment enabling such persons to purchase an affordable home.

The present income limits and initial maximum monthly assistance levels for HAF loans are found in part 4900.1330, subparts 2 and 3 of the permanent rules of the MHFA. These HAF monthly assistance rules established limits based on the interest rate of the first mortgage and on the borrower's "adjusted income," which is, in turn, determined pursuant to a formula set forth in part 4900.0010, subpart 3 of MHFA's permanent rules. Subpart 3 of part 4900.0010 provides specified deductions which are taken from actual gross income to arrive at an adjusted gross income. A certain level of deductions was consequently anticipated when the above-mentioned rules for adjusted income limits and initial maximum monthly assistance levels for HAF were promulgated.

In December, 1985, the House of Representatives passed the Tax Reform Bill of 1985, H.R. 3838, which establishes very specific income targeting provisions to which MHFA will be required to rigorously adhere in its single family mortgage programs, including HAF. The bill provides for income targeting by actual gross income as opposed to "adjusted income" or any facsimile thereof, and establishes severe penalties for noncompliance. This bill may or may not become law, dependent upon future action of the Congress. However, MHFA wishes to establish rules for HAF in anticipation of H.R. 3838 becoming law, so that MHFA operations pertaining to HAF may be implemented in that event.

Accordingly, MHFA has proposed rules for HAF under a "Tax Reform Demonstration Program," which will be implemented only in the event that H.R. 3838 becomes law. The difference in this rule in comparison to previous rules is that the income limits are provided for actual gross income as opposed to adjusted gross income. This is essential in that under H.R. 3838, it will be imperative to track actual gross incomes to meet the provisions of the law, and the income adjustments under adjusted income formulas provide a statistical bias for which it will be administratively impossible to compensate.

Under the proposed rule, MHFA continues to provide a set of income limits based on the Agency's cost of obtaining money, rather than one income limit. Uncertain bond market conditions make it difficult to implement a program based on one income limit, since income limits are a function of what interest rates must be charged to meet MHFA's cost of money, as determined in each bond sale.

Under the proposed rule, the actual gross income limits and initial maximum monthly assistance levels will allow a household to purchase a $60,000 home in the "designated central counties," a $45,600 home in the "designated outstate counties," and a $40,000 home in all other counties. These home purchase price levels are substantially below the purchase price limits established by MHFA for the Single Family Mortgage Loan Program (which would include the Tax Reform Transition Demonstration Program), i.e. $83,000 in the "designated central counties," $67,000 in "designated outstate counties," and $63,000 in "all other counties," because MHFA believes that (a) households requiring a HAF subsidy need not purchase the highest price home that the Single Family Mortgage Loan Program would allow, and (b) the additional amount of subsidy needed to reach higher homes would be cost prohibitive and an ineffective use of public funds.

Minnesota Rules Parts 4900.1361 and 4900.1362.

Parts 4900.1361 and 4900.1362 set forth the criteria for awarding HAF loans and securing their repayment currently found in existing parts 4900.1340 and 4900.1350, which criteria and requirements are both reasonable and necessary to implement the HAF Tax Reform Transition Demonstration Program.

The Agency is cognizant of the provisions of Section 14.115 of Minnesota Statutes, entitled Small Business Considerations in Rulemaking. To the extent that the Homeownership Assistance Fund loans directly benefit the low and moderate income purchasers of single family homes under the Agency's Program, the statute is inapplicable. To the extent that the funds may indirectly inure to the benefit of small businesses, the effect of the rule is to make Agency purchase money mortgage financing more feasible and sales of home more achievable; and, as a consequence, the proposed regulations have no negative effect on small businesses.